pland market growth

Annual Report 1998

HYDUKE
RESOURCES LTD.

Hyduke Capital Resources Ltd.

...is focused on building its oilfield services businesses into an integrated, value-added provider of equipment and supplies to Canadian resource industries. Hyduke will achieve superior shareholder returns through the aggressive pursuit of growth opportunities, from excellently managed operations and by providing quality products and superior service and support to customers. We have motivated, highly skilled employees, knowledgeable management and superior systems.

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We are pleased to present the 1998 Annual Report of Hyduke Capital Resources Ltd. and to report on the activities and objectives of management for establishing Hyduke as a significant player in the Canadian resource service sector. The pages before you present an overview of Hyduke operations, our divisional activities to date and objectives in the future. We have a focused **plan**, aimed at expanding and increasing our **market** to achieve **growth** and significant financial performance that will be measured by return on investment to shareholders.

Hyduke has completed two years of exceptional growth and expansion since its listing as a Junior Capital Pool in spring, 1996. The acquisitions, integration and consolidation of the company's three principal divisions – B.W. Rig Repair & Supply, Reliable Airflow Sales & Service, and CanWest Crane and Equipment Ltd. – under the Hyduke corporate umbrella have been accomplished. Success of these efforts can be measured in revenue growth year over year as sales surpassed previous levels by 45% in 1997 and by 100% in 1998 over 1997.

While a certain measure of this growth occurred during healthier market times, the test of any company's ability to post continued strong results is based on management's being able to perform in less ideal times – to plan and execute strategy consistently despite negative market and economic conditions that arise. It should be noted that Hyduke's growth has, to date, been financed through cash flows without incurring significant long-term debt on our balance sheet. Hyduke's disciplined management approach has ensured that bank covenants have been maintained; we have grown even while operating with strong working capital and debt-to-equity ratios.

For the year ended April 30, 1998, Hyduke Resources recorded revenues of $30.3 million compared to $15.1 million the previous year. Net income for 1998 was $2.0 million compared to $0.8 million in 1997, resulting in basic earnings per share in 1998 of $0.27 versus $0.15 in 1997.

We operate in an economic environment of uncertainty at the present time, which has been compounded with a cyclical downturn in the first half of 1998 within the oil and gas industry. The world-wide demand for oil is reduced due to the severe depression of Asian markets, which has created a ripple effect throughout all markets in the world. The Asian demand for oil- and gas-related products has decreased with the result that companies in this industry have been negatively impacted. Such is the nature of a cyclical industry, however, and we share in the confidence of industry experts that it is a short-term setback.

It is important to keep perspective and remember that the oil and gas industry experienced an exceptional year in 1997 when a record of 16,484 wells were drilled. At times, rig utilization rates rose above 95% in a business where an 80% utilization is considered more than satisfactory. The crunch came even though contractors acquired 100 new rigs over a 15-month period. According to recent numbers published by the Canadian Association of Oilwell Drilling Contractors, there are now 570 drilling rigs based in western Canada. Even with the present slump, it will be the second-best year in history for drillers. Well completions may drop 18%, as has been predicted but, also forecasted, the number of rig days for the year will decline by only 7%. The utilization rate will remain above 65% in a business that is profitable above 50 to 55%.

This bodes well for companies such as Hyduke and we will benefit correspondingly from the profitability that continues to exist in the industry. Many of our customers have taken advantage of the slowdown to service their rigs. As one industry insider was recently quoted: "The breather gives us time to do repair and maintenance." Hyduke, through its division of B.W. Rig, specializes in service rigs. Utilization of service rigs is, in fact, higher than that of actual drilling rigs and historical statistics confirm that service rig use continues strong in years of reduced drilling activity. The oil patch still requires rig workovers as part of ongoing maintenance are the drill site, as well as to complete and/or abandon wells when the exploration program is finished. The number of service rigs in Canada now stands at 814.

The long-term reality is that demand for oil and gas products will resume its increase as the current surplus is utilized. Demand will again outpace supply. Companies such as Hyduke that have focused their operations and are positioned to respond to renewed industry demands will emerge as the frontrunners in a consolidated industry. Hyduke is taking advantage of this period by aggressively continuing to pursue strategic acquisitions as part of our plan to build Hyduke into a comprehensive, vertically integrated resource service company. Building for growth by taking advantage of opportunities in times of uncertainty reflects Hyduke's plan to build a solid position in our marketplace and achieve outstanding financial performance as a result. Our acquisition strategy is well timed for present conditions as more opportunities exist and at better prices than at the high point of the industry cycle.

Also driving continued growth at Hyduke is our focus on increasing sales while reducing costs. Our newly established purchasing department is achieving economies of scale and better pricing in the volume purchasing of materials, identifying and implementing efficiencies, and enhancing utilization of products throughout all divisions.

The potential to increase sales exists in the cross-industry application of our service and products. We are proactive in selectively identifying other markets for our products and services, such as exist in the construction, mining, forestry, transportation and non-oil and gas manufacturing industries. Selective identification and pursuit of these opportunities is key to our strategy. This does not mean, however, that we will spend 70% of our time to achieve a small share of the business potential that is available. We will not over-extend our capabilities to the point where we have lost sight of our primary business activity – servicing the resource sector.

Hyduke divisions are independent and interdependent, utilizing common efficiencies throughout each operation while delivering each division's own unique technical solutions to industry. The corporate direction and business disciplines applied by Hyduke have provided the environment in which this interaction enables each division to achieve their own goals and objectives. The interdependence of leveraging skills and resources is enabling Hyduke to build a multi-faceted resource services company that is greater than the sum of its parts.

Although Hyduke divisions design and manufacture what are fundamentally mechanical components and products, we are cognizant that the differentiating feature between our operations and the competition is the intellectual capital that is resident in our company as our employees apply their skills and experience to all work we undertake. We live in a global, knowledge economy in which there are no longer any "low tech" industries. We have moved from a capital-intensive production-oriented economy to a knowledge economy. Hyduke's growth will be enhanced by its dedicated, skilled employees who seek to continously improve and who are motivated and enthusiastic about their work, their customers and the company. We thank them for their efforts.

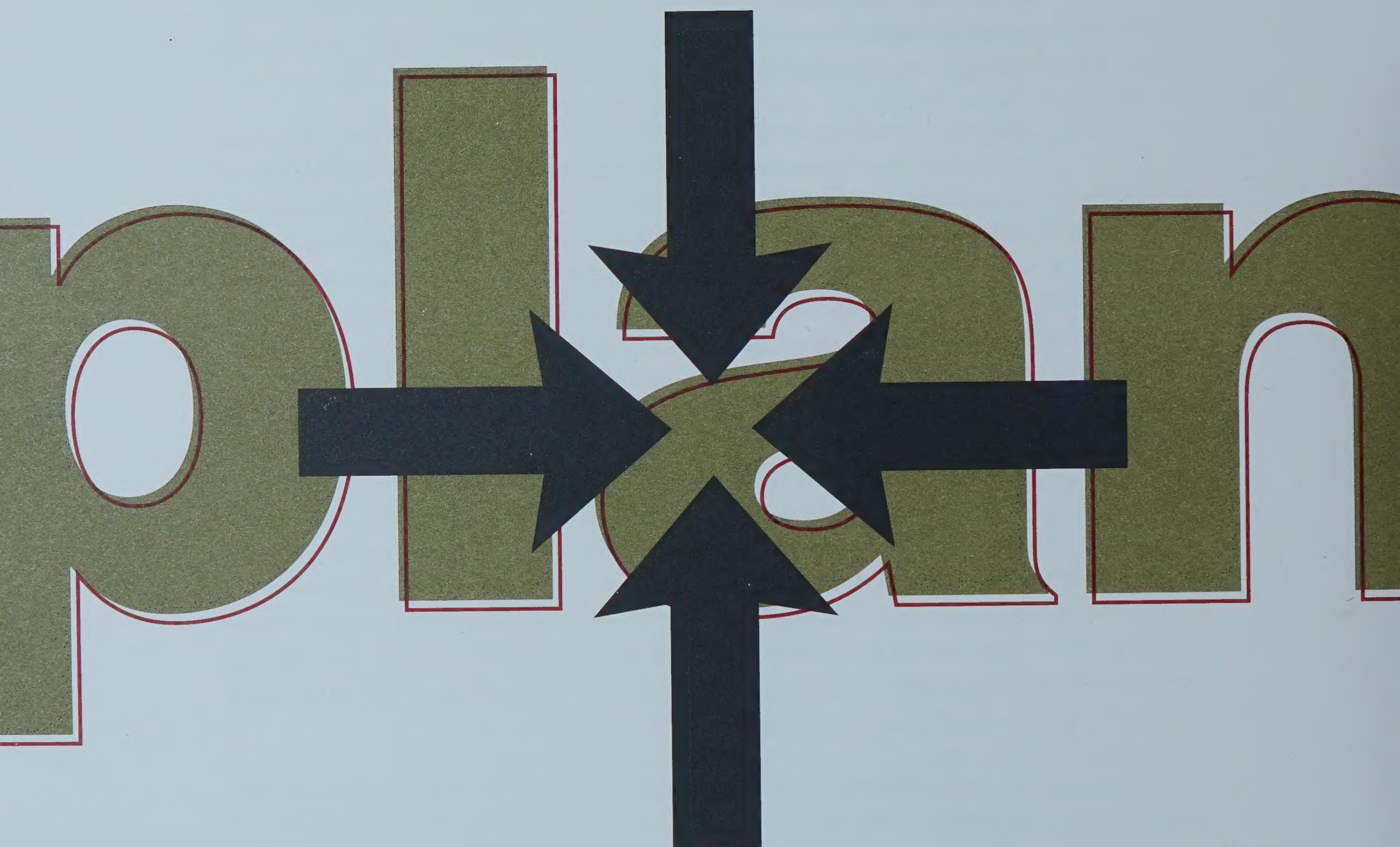
No one is invulnerable to global market conditions but Hyduke recognizes that, in slower times, opportunities exist to regroup, refocus and prepare for the next cyclical upswing. We believe in the quality of our corporate strategy and in the ability of management to achieve landmark growth. Our past results prove it!

On behalf of the Board of Directors,

Boris Makowecki

John Babic
Chairman and Chief Executive Officer

Boris Makowecki
President


plan

Hyduke Resources has a focused plan, aimed at expanding its operations through acquisition of industry- and operations-related companies in western Canada and through internal growth and effective management of the company's current divisions. Hyduke plans to manufacture quality products and provide superior service and support to resource industry customers. We intend to expand our operations by pursuing both internal and external growth opportunities.

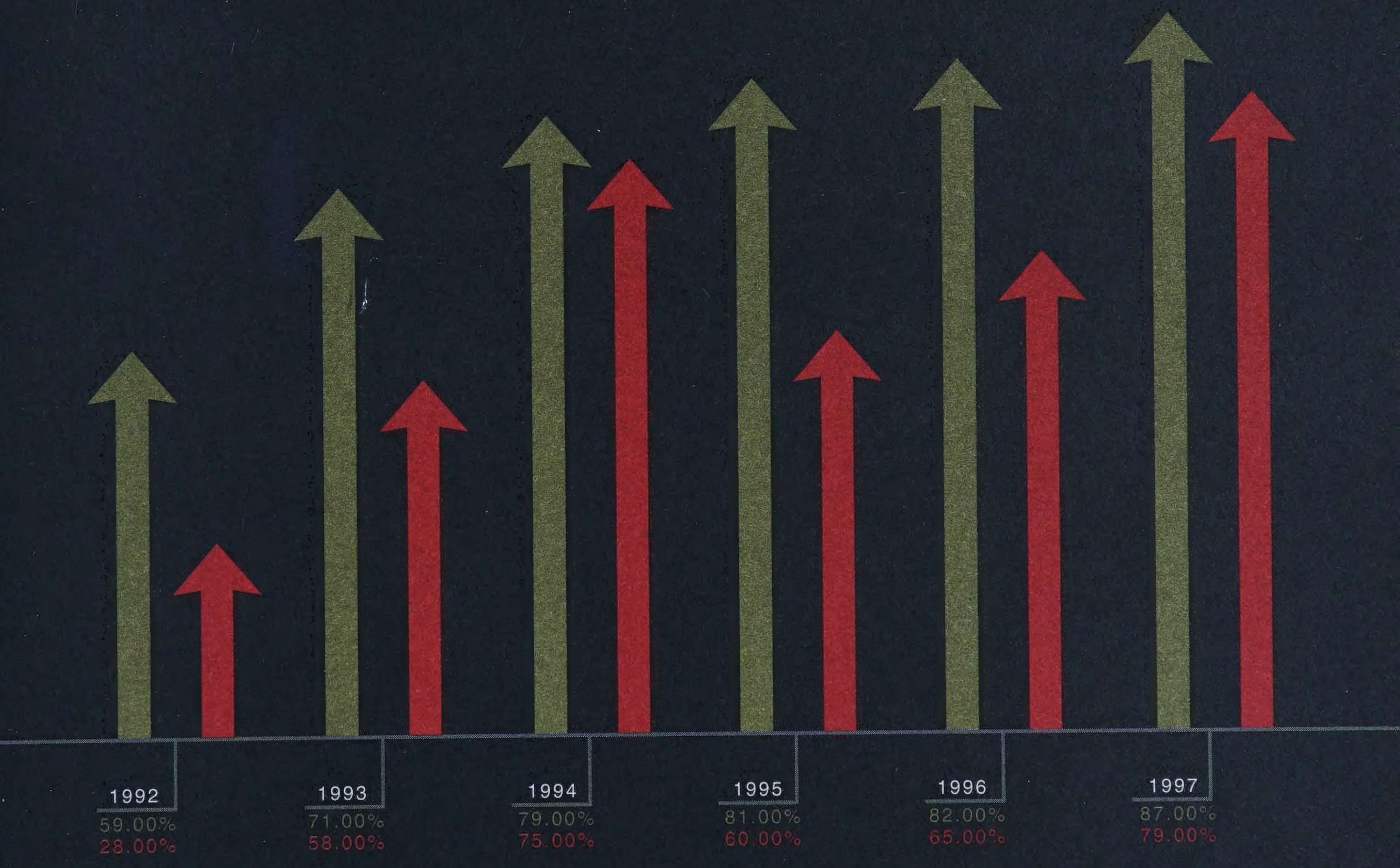
Revenues of B.W. Rig Repair & Supply increased 39% in 1998 over 1997 and 79% over 1996 when it was acquired by Hyduke. B.W. Rig has captured market share by tailoring its services and expertise to meet customer expectation and adapting to market demands. In business for 24 years, B.W. Rig has earned a reputation for being the premiere supplier and service facility for work-over rigs in the western Canadian oil patch. We have differentiated ourselves by adding a value-added proprietary expertise to what is managed as a low-tech business by others. Customer service also differentiates B.W. Rig. In an industry where pricing is key and low margins the norm, B.W. enjoys unusual customer loyalty.

Since its acquisition of B.W. Rig, Hyduke has expanded facilities from 16,000 to 45,000 square feet. Expansion has enabled us to step up our manufacturing abilities for service rigs, and all site-related equipment and components. Working with B.W. customers, we design and build all technical components to meet the specifications required of each situation. Our manufacturing abilities are not based on a cookie-cutter approach according to the status quo. We design and manufacture equipment that is more efficient and serviceable. B.W.'s proprietary drawworks design – from the B.W. 400 horsepower series to the B.W. 700 series in development – exemplifies the individual and unique solutions the company employs. B.W. also has a reputation in the industry for state-of-the-art designs such as the company's braking and outboard clutch mechanisms.

Current operations of B.W. Rig Repair & Supply have been focused on western Canada and we plan to expand our presence through a proactive marketing strategy to identify the further manufacturing opportunities that exist. We are also identifying international projects. Discussions are under way, for example, for B. W. Rig to participate in a technically challenging project overseas.

B.W. Rig operations extend to the division's three supply facilities in Alberta: Edmonton, Red Deer and Lloydminster. Our customers' drilling sites are geographically diverse; our ability to provide timely service and supplies to them requires a presence in the areas in which they operate. To that end, we are currently evaluating whether the addition of facilities in other Alberta and western Canadian locations would be appropriate and profitable.

B.W. Rig operates with 50 employees, many of whom have been with the company for more than 10 years. In an industry where turnover is high, we have attracted and retained skilled craftsmen as well as recruited entry-level shop personnel who we train to our standards. The opportunity for growth and advancement with a company that values work ethic and effort has resulted in motivated, committed employees. Many are shareholders in Hyduke.



Service Rigs Drill Rigs
(Industry Utilization in Canada)


market

Hyduke Resources will expand and increase market presence by providing an expanded line of products and services to a broad cross-section of industry, including forestry, oil and gas, mining, transportation and other industrial applications. From our base in western Canada, we will expand our market to operate nationally and world-wide.

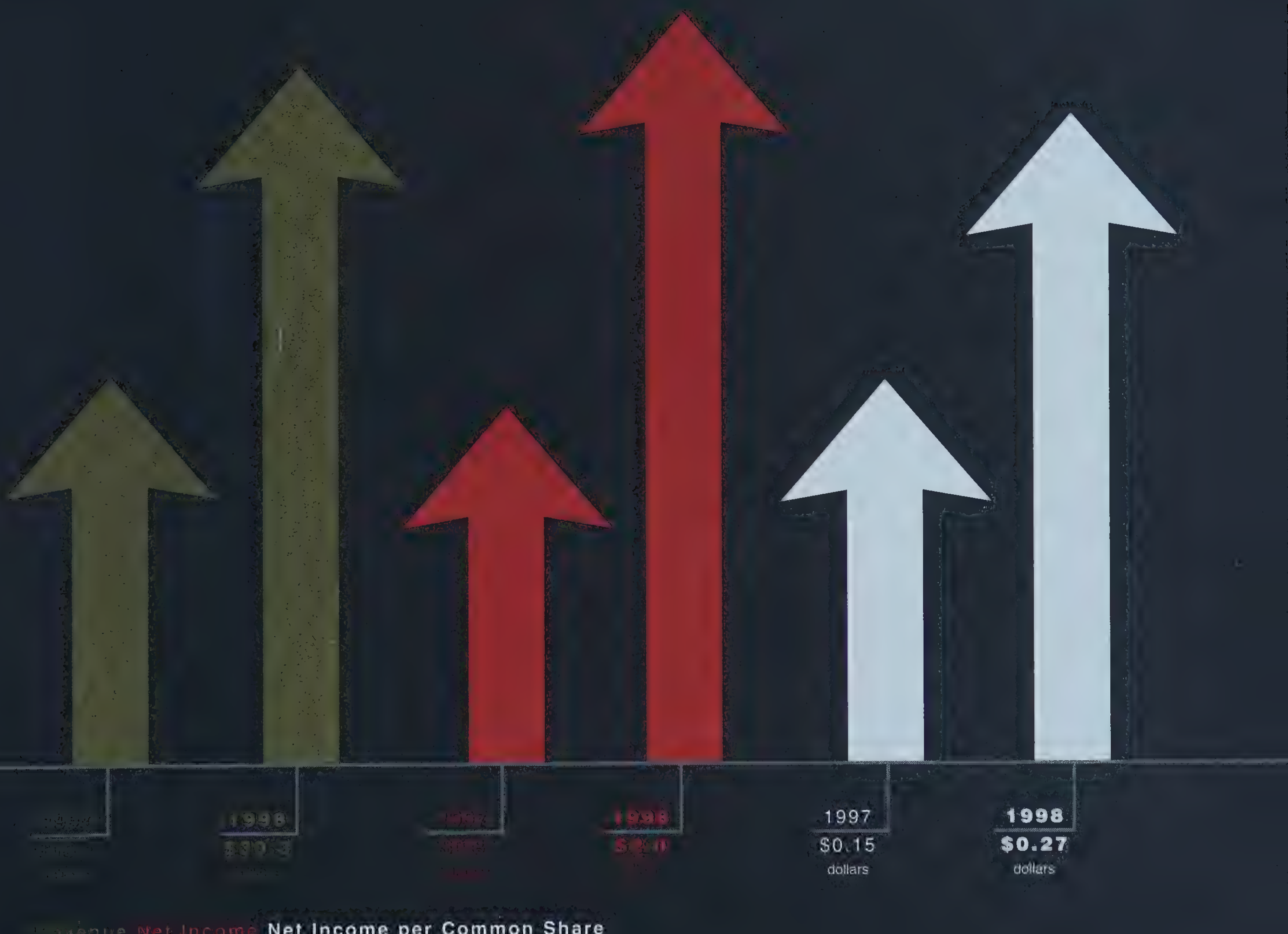
Reliable Airflow Sales & Service was acquired by Hyduke in 1996 and has seen revenues increase 67% in 1998 over 1997 and 81% over 1996. Reliable manufactures and customizes the pneumatic and air-control products and features of drilling rigs, a natural complement to B.W. Rig operations. In addition to its own customer base, Reliable is supplier to B.W. for all air-controlled components of the service rigs that B.W. designs and manufactures.

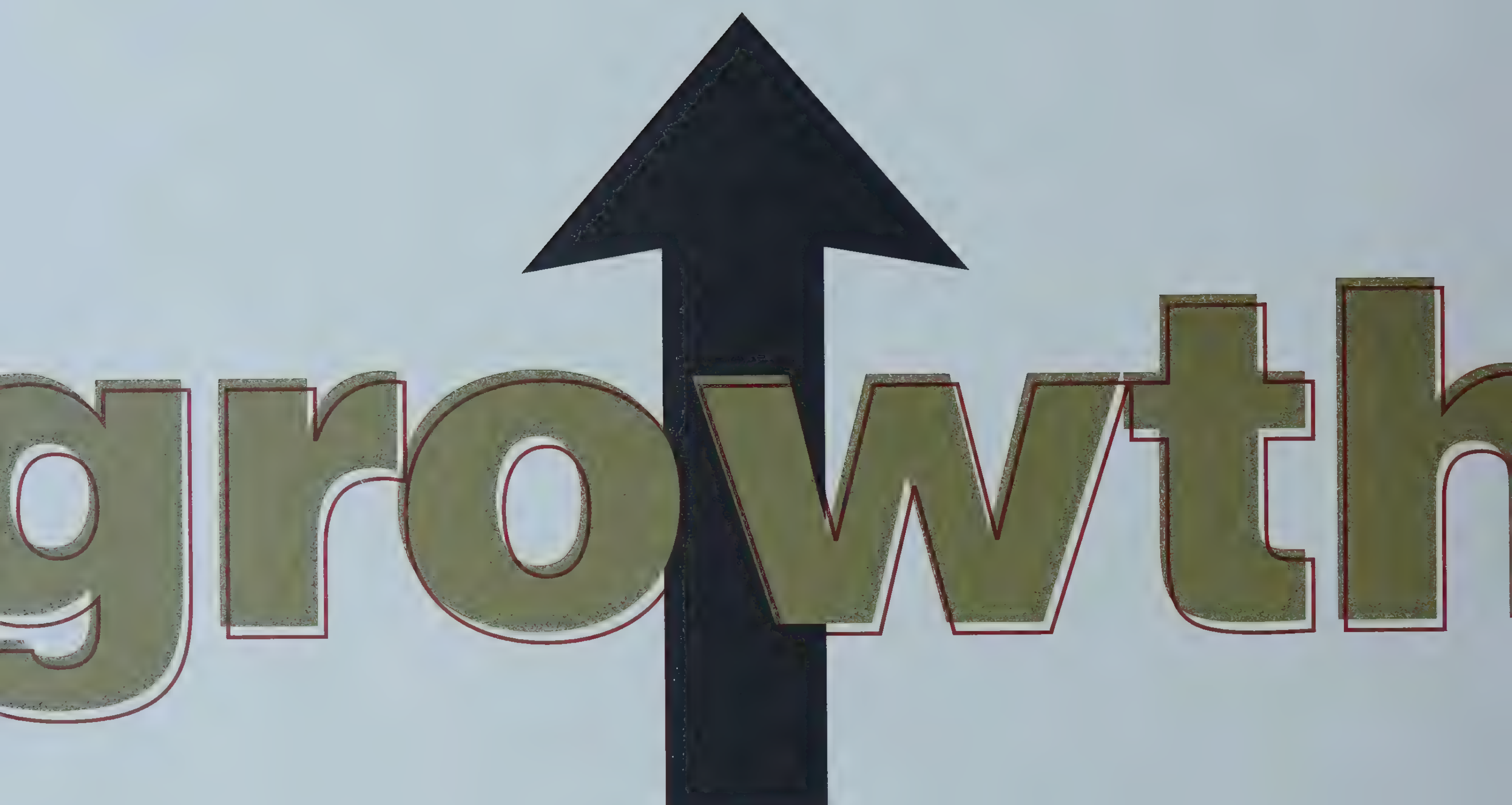
In business since 1984, Reliable's success has been, and will continue to result, from the value-added niche it has carved within the resource sector. Reliability, safety and performance features of rig air controls is a critical issue. Reliable has earned its reputation in the oil patch for the uncompromised integrity of its products and service.

During the last year, Reliable increased its market penetration with the introduction of a turbo starter to which it has exclusive western Canadian distribution rights. Although this particular component has achieved unsurpassed popularity among customers, we recognize that it is not enough to just have a good product. In an area such as air technology that is seeing continual enhancements, educating customers as to the new advances and approaches available to them is critical to sales and is an area of operations that Hyduke plans to enhance in coming months.

The use of air-control, pneumatic systems is not unique to the oil and gas industry and future growth for Reliable will be drawn from other sectors with applications for this technology. We have identified the pulp, coal mining, and transportation industries as those to initially target.

As with other Hyduke operations, Reliable is highly regarded by its customers for the industry knowledge of its employees and for the levels of service they deliver. The industry also relies on Reliable's expertise for customizing air control systems to precise and individual job requirements. Reliable approaches each design/build project as to the unique operating characteristics and environment that must be accommodated.


1998
1998
1997
$0.15
dollars
1998
$0.27
dollars
Net Income
Net Income per Common Share


growth

Hyduke Resources will achieve growth and return on shareholders' investment by building its internal operations and its external presence into a dynamic, vertically integrated services company. New product lines will be investigated, markets will be expanded geographically and other companies which 'fit' with Hyduke will be acquired.

CanWest Crane and Equipment Ltd. operates in the oil and gas, and forestry sectors. In the 11 months since it was acquired, sales increased from $5 million to $7 million for year-end 1998. The purchase price of CanWest has almost completely been recovered from earnings in the first year; all future profits will flow directly to Hyduke's bottom line.

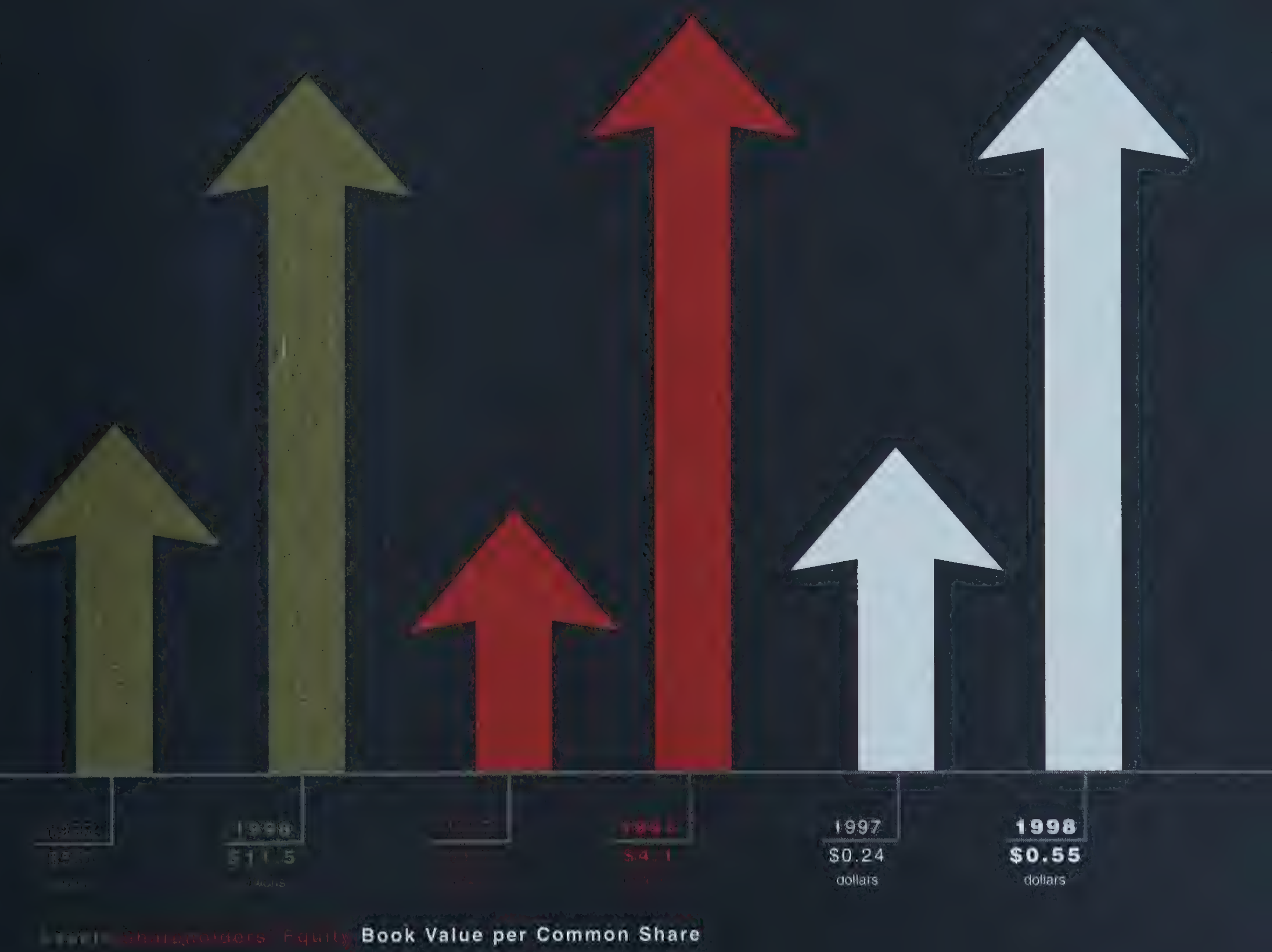
Specializing in truck-mounted cranes, CanWest currently represents four lines, providing full customization of crane mounting onto a variety of transport vehicles according to the specifics of each project. CanWest's business focus is synergistic to that of B.W. Rig and Reliable; common industries can be approached on a full-service basis as different applications of manufacturing specialization are required.

Priorities for CanWest in the year ahead focus on the development of a proprietary crane design that Hyduke will design and manufacture. We are in discussions with the National Research Council concerning technical development of a specialty market hydraulic crane, intended to optimize the balance between government-regulated restrictive axle weight allowances and the ability to haul larger payloads for improved profitability. Lighter cranes with the same lifting capacity are required to service this market demand in a broad range of industry applications. We are establishing our own engineering department to design the technical specifications for building this new crane and which will eventually expand to design additional proprietary equipment for use and marketing by other Hyduke divisions.

CanWest has been enhanced with the addition of operations and service management experienced in areas essential to CanWest's growth: establishing Canadian markets and cross-country dealer networks, expanding bases in western and eastern markets, and having the first-hand mechanical and hydraulic knowledge necessary to tailor crane technology to customer specifications.

During the past year, CanWest expanded its market through the introduction of LOGLIFT, a state-of-the-art log handling crane, featuring improved strength, speed and hydraulic pressure flow in a structure half the weight of conventional cranes. Manufactured in Finland, it is only available from CanWest, which has western Canadian distribution rights and first rights to the entire Canadian market.

Other cranes marketed by CanWest include HEILA, an articulating crane with universal applications and employed extensively in the oil and gas industry; CORMACH, a low-centre-of-gravity crane that has specialized advances over other models, and the QMC stiff-boom crane. Our plan for the next year is to aggressively market the HEILA articulating crane to other resource industries throughout western Canada and to capitalize on the architectual geometry that differentiates the CORMACH low-centre-of-gravity crane. CanWest is being positioned to dominate specific market niches that require the specialized crane applications only provided by this model.


1997
$0.24
dollars
1998
$0.55
dollars
Book Value per Common Share

Overview

Hyduke Capital Resources Ltd. is comprised of three divisions, all serving the oil and gas industry and resource sectors. The company is focused on continuing to build the business into an integrated, value-added provider of equipment and supplies to our customers.

Currently, Hyduke divisions and their areas of operation are:
B.W. Rig Repair & Supply – oilfield supply and service company that commenced operations in 1974. B.W. Rig manufactures and repairs service rigs and structures and provides a full range of oilfield-related supplies from its facilities in Edmonton, Red Deer and Lloydminster.

Reliable Airflow Sales & Service – in business since 1984 and manufactures, customizes and repairs all types of pneumatic controls, pumps and valves used by customers in the resource industry.

CanWest Crane and Equipment Ltd. – specializing since 1992 in the sale and rig-up of boom trucks, articulating cranes and winches used in the oilfield, mining and construction industries, and of a truck-mounted log loader used in the forestry industry. CanWest provides a complete range of services from custom design and installations to overhauls and certifications and is the authorized dealer for several other manufacturers of heavy equipment.

Results of Operations

For the year ended April 30, 1998, Hyduke recorded total consolidated revenues of $30,293,400, a 100% increase over revenues of $15,106,992 in 1997. The increase is primarily the result of increased activity in all three Hyduke divisions. During the year, the company more than doubled its manufacturing/repair facilities, opened a supply store in Red Deer and expanded product lines in order to enhance service to our customers and to meet customer demands.

Reflecting the increase in work levels, Hyduke's consolidated gross margin for the 1998 year end was $4,776,490, compared to $2,133,441 a year earlier. Commensurate with the company's financial growth and expansion during the year, expenses were $1,400,566 for the year end 1998, compared to $659,800 a year earlier. Expenses in 1998 included $670,988 for administrative and employment, $188,111 for sales and marketing, $341,665 for office and automation, and $132,185 for consulting and professional fees.

Other income recorded in 1998, $56,819, related to interest earned during the year while additional expenses of $403,287 were the result of amortization and interest expense.

The current year's income tax expense is based on an effective tax rate of 33.9% and amounted to $1,029,584 for the 1998 year end, compared to $380,000 in 1997. The resulting net income for the year was $1,999,872, a 138% increase over the $840,494 earned in the previous year, the result of increased business activity and the profitability of our acquisitions.

Basic earnings per share on income from operations increased to $0.46 in 1998 from $0.28 in 1997 while over-all basic earnings per share for the year were $0.27 in 1998 versus $0.15 a year earlier.

At a divisional level, revenues achieved for the year end 1998 were $19,761,909 by B.W. Rig, $3,454,303 by Reliable Airflow, and $7,076,988 by CanWest Crane. CanWest was acquired by Hyduke in June, 1997, and its results reflect 11 months of operations as a Hyduke division.

Hyduke's success resulted in an improved working capital position, which increased to a strong $2,231,510 from $1,200,683 in 1997. Cash flow (from operations) per share translated to $0.30 in 1998, up from $0.18 in 1997.

Hyduke enjoyed a healthy balance sheet at year end represented by total assets of $11,539,348, a 130% increase in assets from $5,023,166 at year end 1997. The company operates with minimal long-term debt – $282,004 in 1998 compared to $378,446 a year earlier – as Hyduke has used cash flow to finance its growth over the last few years.

At year end 1998, Hyduke's share capital had increased to $1,273,065 from $816,015 while retained earnings increased to $2,838,719 from $838,847, a 238% increase.

Liquidity and Capital Resources

At April 30, 1998, the company was indebted for bank advances of $2,308,670 to facilitate the expansion of facilities at B.W. Rig and Reliable Airflow, and for substantially increased inventories and work in progress. Advances are based on lines of credit with the Hongkong Bank of Canada. The total operating credit line available to the company as at April 30, 1998, was $3,950,000 at rates from prime plus 0.75% to prime plus 1%.

Business Risks and Uncertainties

The company's revenues continue to be drawn from customers primarily in the oil and gas industry and other resource sectors. The oil and gas industry is subject to seasonal and industry cycles and fluctuations. Hyduke intends to continue developing its customer base for existing and new manufactured products as part of its strategy to grow the company and to improve its ability to withstand industry downturns as they occur.

Hyduke has implemented a number of operating and financial efficiencies aimed at reducing expenses where consolidated efficiencies can be identified and achieved. During 1998, the company's financial management was further enhanced with the hiring of an experienced Chief Financial Officer. New reporting controls, better record keeping, enhanced computer systems and a streamlined organizational structure have been introduced.

Hyduke maintains accounting policies, procedures and controls that are sufficient to result in reliable financial reports and provide adequate controls over company assets.

The company recognizes the importance of operating in such a way as to protect the environment and is aware of no circumstances that would create any significant financial responsibility for environmental matters.

Hyduke understands the issues related to Year 2000 compliance and has undertaken a review of all its systems and processes related to its compatibility with Year 2000. Based on this review and with the technology enhancements being implemented, the company is confident that its systems and processes will run effectively.

Outlook

As stated earlier, Hyduke and its divisions operate primarily in the oil and gas environment in which many uncertainties can exist and over which the company has no control. The industry has recently experienced a significant weakness in the price of oil which affects the operations and budgets of some of the company's customers. While uncertainty currently exists over the price of oil, the price of natural gas in Canada and the U.S. has been, and should continue to be, strong. Energy service analysts are suggesting that crude prices will rebound over the next six- to 12-month period. Investors who understand market conditions and are displaying patience during the current cyclical downturn will, we believe, be rewarded as crude prices resume their value and strength returns to the oil and gas and energy services sector.

Management's objective in these global market conditions is to actively and aggressively target significant acquisitions and to identify and implement new market niches for its products and services. Hyduke continues to evaluate targeted opportunities that exist and are available at attractive prices in the

R L Ardiel

Bob Ardiel
Chief Financial Officer

Management Responsibility Statement

The management of Hyduke Capital Resources Ltd. is responsible for preparing the consolidated financial statements, and the notes to the consolidated financial statements and other financial information contained in this annual report.

Management prepares the consolidated financial statements in accordance with generally accepted accounting principles. The consolidated financial statements are considered by management to present fairly the company's financial position and results of operations.

Management, in fulfilling its responsibilities, has developed and maintains a system of internal accounting controls designed to provide reasonable assurance that company assets are safeguarded from loss or unauthorized use, and that the records are reliable for preparing the consolidated financial statements.

The consolidated financial statements have been reported on by Watson Aberant Arnold, Chartered Accountants, the shareholders' auditors. Their report outlines the scope of their examination and their opinion on the consolidated financial statements.

John Babic
Chairman and Chief Executive Officer

R L Ardiel

Robert Ardiel
Chief Financial Officer

To the Shareholders of Hyduke Capital Resources Ltd.

We have audited the consolidated balance sheet of Hyduke Capital Resources Ltd. as at April 30, 1998 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted an audit in accordance with generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and their disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at April 30, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Watson Aberant Arnold
Chartered Accountants

Edmonton, Alberta
July 6, 1998

Consolidated Balance Sheet | as at April 30, 1998

Assets		1998		1997
Current assets				
Accounts receivable	$	4,214,066	$	2,998,856
Inventory (note 3(b))		4,078,410		864,026
Prepaid expenses		100,665		26,836
Work in progress (note 3(d) & 4)		945,379		300,823
Current portion of mortgage receivable		38,550		–
		9,377,070		4,190,541
Advances to related company (note 6)		–		99,306
Mortgage receivable (note 7)		485,355		–
Capital assets (note 8)		742,560		316,519
Other assets (note 3(f) & 11)		178,460		–
Goodwill (note 5 & 9)		755,903		416,800
	$	11,539,348	$	5,023,166

Liabilities		1998		1997
Current liabilities				
Bank advances (note 10)	$	2,308,670	$	202,136
Accounts payable and accrued liabilities		3,481,771		2,192,077
Income taxes (note 20)		1,076,597		380,000
Current portion of long-term debt		278,522		215,645
		7,145,560		2,989,858
Long-term debt (note 12)		282,004		378,446
		7,427,564		3,368,304

Shareholders' Equity		1998		1997
Share capital (note 13)		1,273,065		816,015
Retained earnings		2,838,719		838,847
		4,111,784		1,654,862
	$	11,539,348	$	5,023,166

Contingent liability (note 18)

Approved by The Board

Director *Director*

Consolidated Statement of Income | Year Ended April 30, 1998

		1998		1997
Sales	$	30,293,400	$	15,106,992
Cost of sales		25,516,910		12,973,551
Gross margin		4,776,490		2,133,441
Expenses		1,400,566		659,800
Income from operations		3,375,924		1,473,641
Other income		56,819		11,712
Earnings before amortization, interest, and income taxes		3,432,743		1,485,353
Other expenses		403,287		264,859
Net income before income taxes		3,029,456		1,220,494
Income taxes		1,029,584		380,000
Net Income for the Year	$	1,999,872	$	840,494
Basic earnings per share for the year (note 16)	$	.27	$	.15
Basic earnings per share before taxes	$	.41	$	.22
Basic earnings per share on income from operations	$	.46	$	.28

Consolidated Statement of Retained Earnings Year Ended April 30, 1998

		1998		1997
Retained earnings (deficit) at beginning of year	$	838,847	$	(1,647)
Net income for the year		1,999,872		840,494
Retained earnings at end of year	$	2,838,719	$	838,847

Consolidated Statement of Changes in Financial Position Year Ended April 30, 1998

		1998		1997
Cash was provided by (used for)				
Operating activities				
Net income for the year	$	1,999,872	$	840,494
Add (deduct) items which do not require a current outlay of cash				
Amortization		219,290		183,692
Gain on sale of capital assets		–		(10,855)
Cash from operating activities		2,219,162		1,013,331
Increase in accounts receivable		(1,215,210)		(2,998,392)
Increase in inventory		(3,214,384)		(864,026)
Increase in accounts payable and accrued liabilities		1,289,694		2,192,077
Increase in prepaid expenses		(73,229)		(13,172)
Increase in work in progress		(644,556)		(300,823)
Increase in income taxes payable - current		553,732		380,000
- deferred		142,865		–
		(941,926)		(591,005)
Investing activities				
Increase of investment		(40,000)		–
Purchase of land		(138,460)		–
Decrease (increase) in advances to related company		99,306		(99,306)
Purchase of capital assets		(550,364)		(413,158)
Purchase of goodwill		(434,670)		(521,000)
Increase in mortgage receivable		(523,905)		–
		(1,588,093)		(1,033,464)
Financing activities				
Issuance of share capital (net of issuance costs)		457,050		691,015
Increase (decrease) in long-term debt, net		(33,565)		544,113
Increase in advances from shareholders		–		49,978
Proceeds on sale of capital assets		–		28,000
		423,485		1,313,106
Decrease in cash		(2,106,534)		(311,363)
Cash (bank advances) at beginning of year		(202,136)		109,227
Bank advances at end of year	$	2,308,670	$	202,136

1. Incorporation

The company was incorporated under the provisions of the Business Corporations Act of Alberta on December 8, 1996.

2. Nature of Operations

a) The company issued 4,000,000 shares to acquire 100% of the issued and outstanding shares of 675651 Alberta Ltd., a private company. 675651 Alberta Ltd. operates two divisions, B. W. Rig Repair & Supply and Reliable Airflow Sales & Service. The closing date of the transaction was October 31, 1996.

The purchased net assets of 675651 Alberta Ltd. were as follows:

Assets	$	3,978,466
Liabilities	$	3,443,934

b) The company purchased 100% of the issued and outstanding shares of CanWest Crane and Equipment Ltd. for $1,100,000. The closing date of this transaction was June 2, 1997.

Cash consideration		
note payable	$	250,000
cash on closing	$	425,000
cash deposit	$	25,000
Share consideration		
363,636 common shares (valued at $1.10 per share)	$	400,000

3. Accounting Policies

a) **Basis of Consolidation**

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, 675651 Alberta Ltd. and CanWest Crane and Equipment Ltd.

675651 Alberta Ltd.'s accounts are consolidated using the pooling of interests method. Under this method, the assets and liabilities are combined and are accounted for in the combined company's financial statements at their carrying value in the combining companies' records. The reported income of the combined company includes income of the combining companies for the year ended April 30, 1998 adjusted for intercompany transactions.

CanWest Crane and Equipment's accounts are consolidated using the purchase method. Under the purchase method the asset and liabilities are combined and are accounted for in the combined company's financial statements at their fair market value at time of purchase. The reported income of the combined company includes income for the combining companies for the year ended April 30, 1998 adjusted for intercompany transactions and amortization of goodwill (note 9).

b) **Inventory**

Inventory is valued at the lower of cost or net realizable value.

c) **Capital Assets**

The company provides for amortization of its capital assets using the declining balance basis at the following rates:

Shop equipment	20%
Rental equipment	20%
Office equipment	20%
Automotive equipment	30%
Leasehold improvements	5 years straight line

These rates are intended to amortize the assets over their estimated useful lives.

Full amortization is recorded in the year of acquisition and none in the year of disposal.

d) **Revenue**

Revenue is recognized on the percentage of completion basis. Work in progress represents cost and related revenue on unbilled jobs in process at year end.

e) **Translation of Foreign Currencies**

Monetary assets in currencies other than Canadian dollars are translated into Canadian dollars using the temporal method of currency translation by which monetary assets are translated at the rate of exchange prevailing at the balance sheet date. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur.

f) **Other Assets**

Land and investment in Ramarro Resources Inc. are carried at the lower of cost or net realizable value.

4. Change in Accounting Policy – Revenue Recognition

The company has changed its revenue recognition policy from the completed contract method to the percentage of completion method. The nature of the change is to increase work in progress, sales revenue and shareholders' equity. The amount of the pre-tax increase as a result of this change is $271,391.

The accounts of the current year reflect this change in revenue recognition. The accounts of the prior year have not been restated as the accounting records do not contain the detail necessary to reflect this change. It is the opinion of management that the effect of the change on the prior year would not be significant.

5. Change in Accounting Estimate – Goodwill

Management has changed its estimate of the economic useful life of goodwill from 5 years to 10 years. This change is a reflection of management's best estimate of the economic useful lives of the goodwill in each of the company's subsidiaries, 675651 Alberta Ltd. and CanWest Crane and Equipment Ltd. This change has been reflected in the 1998 financial statements and has not been applied retroactively.

6. Advances to Related Company

	1998	1997
692857 Alberta Ltd.	$ –	$ 99,306

This company is related to Hyduke Capital Resources Ltd. through common directors.

7. Mortgage Receivable

The subsidiary company, 675651 Alberta Ltd. has a mortgage agreement receivable from 692857 Alberta Ltd. The mortgage receivable has the following terms: 1) interest at 9%, 2) payable $7,011 monthly in blended principal and interest payments, 3) secured by a second charge on land and building, 4) due June 30, 2007.

675651 Alberta Ltd. has a lease agreement to lease land and building from 692857 Alberta Ltd. The lease agreement requires 675651 Alberta Ltd. to pay to 692857 Alberta Ltd. 1) $18,000 per month, 2) triple net, 3) expiring June 30, 2007.

	1998	1997
Mortgage receivable, net	$ 523,905	$ –
Less: current portion due within one year	(38,550)	–
	$ 485,355	$ –

8. Capital Assets

	1998 Cost	1998 Accumulated Amortization	1998 Net	1997 Net
Shop equipment	$ 486,279	$ 136,568	$ 349,711	$ 160,226
Rental equipment	7,443	2,475	4,968	6,078
Office equipment	199,288	62,648	136,640	54,998
Automotive equipment	197,111	114,508	82,603	65,264
Leasehold improvements	205,051	36,413	168,638	29,953
	$ 1,095,172	$ 352,612	$ 742,560	$ 316,519

9. Goodwill

Goodwill related to 675651 Alberta Ltd. arose upon the purchase by 675651 Alberta Ltd. of the inventory, capital assets and trade names of B. W. Rig Repair & Supply and Reliable Airflow Sales & Service.

Goodwill related to CanWest Crane and Equipment Ltd. arose on the use of the purchase method to consolidate the accounts of CanWest Crane and Equipment Ltd. This represents the amount by which the total purchase price exceeded the fair market values of the tangible assets purchased.

	675651 Alberta Ltd.	CanWest Crane & Equipment Ltd.	1998	1997
Goodwill	$ 521,000	$ 434,670	$ 955,670	$ 521,000
Less:				
accumulated amortization	(156,300)	(43,467)	(199,767)	(104,200)
	$ 364,700	$ 391,203	$ 755,903	$ 416,800

Goodwill is amortized on a straight-line basis over ten years.

10. Bank Advances

The company and its subsidiary companies are indebted for outstanding and advanced funds under existing lines of credit. Rates on these lines of credits are prime plus .75% to prime plus 1%. The credits are due on demand and secured by general security agreements charging all assets of the companies.

11. Other Assets

	1998	1997
Land, at cost	$ 138,460	$ –
Investment in Ramarro Resources Inc.	40,000	–
	$ 178,460	$ –

Land represents property in Nisku, Alberta acquired for future manufacturing facility development. The investment in Ramarro Resources Inc. was acquired as partial settlement for an outstanding trade receivable.

12. Long-Term Debt

	1998	1997
Bank loan, bearing interest at prime plus 1%, payable $4,050 in blended monthly principal and interest, secured by a general security agreement covering all present and after acquired property, a general assignment of book debts and a charge on inventory, due May 31, 2001	$ 127,146	$ 166,255
Note payable, bearing interest at 10%, payable $9,619 in blended monthly principal and interest, secured by a general security agreement covering all present and after acquired property, due May 31,1999	118,695	217,662
Note payable, bearing interest at 10%, payable $7,110 in blended monthly principal and interest, secured by a general security agreement covering all present and after acquired property, due May 31, 1999	87,357	160,196
Note payable, bearing interest at 5%, payable $7,489 in blended monthly principal and interest, secured by a general security agreement covering all present and after acquired property, due October 31, 2000	177,350	–
Advances from shareholders, non-interest bearing with no fixed terms of repayment. The shareholders have not requested repayment in the next fiscal year, therefore advances from shareholders have been recorded as a long-term liability.	49,978	49,978
	560,526	594,091
Less principal portion due within one year	278,522	215,645
	$ 282,004	$ 378,446

Anticipated principal repayments over the next three years are as follows:

1999	$ 278,522
2000	140,895
2001	91,131
Subsequent	49,978
	$ 560,526

13. Share Capital

a) Authorized

Unlimited number of common voting shares
Unlimited number of preferred shares

		1998		1997
Issued				
7,538,636 common shares	$	**1,273,065**	$	816,015

b) Summary of share transactions are as follows:

	Number		Amount
Issuance of common shares for cash; December 22, 1995 ($0.10 per share)	**1,250,000**	$	125,000
Issuance of common shares for shares of 675651 Alberta Ltd.; October 31, 1996 ($0.1125 per share)	**4,000,000**		450,022
Issuance of common shares for cash; public offering – May 24, 1996 ($0.20 per share less issue costs)	**1,500,000**		225,993
	6,750,000		801,015
Option on common shares exercised November 28, 1996 ($0.20 per share)	**75,000**		15,000
Director's option on common shares exercised May 6, 1997 ($0.20 per share)	**275,000**		55,000
Issuance of common shares for net assets of CanWest Crane and Equipment Ltd. effective June 2, 1997 (1.10 per share less issue costs)	**363,636**		387,050
Option on common shares exercised September 19, 1997 ($.20 per share)	**75,000**		15,000
	7,538,636	$	1,273,065

The company follows the accounting policy of reducing the proceeds by the costs directly related to the issuance.

Issuances during the current year resulted in the following:

Number		Gross Per Share		Net Proceeds		Costs		Proceeds
275,000	$	0.20	$	55,000	$	–	$	55,000
363,636		1.10		400,000		12,950		387,050
75,000		0.20		15,000		–		15,000
							$	457,050

Costs consist of the following:

Brokerage fees	$	2,133
Legal fees		7,923
Listing fees		2,250
Other		644
	$	12,950

c) The 1,250,000 common shares issued on December 22, 1995 are to be held in escrow and may be released only in accordance with the provisions of Alberta Securities Commission Policy 4.11.

d) The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

e) The corporation granted Yorkton Securities Ltd. a non-transferrable option to purchase 150,000 common shares at a price of $0.20 per share as partial consideration to act as agents for the public offering. On November 28, 1996, Yorkton Securities Ltd. exercised half of their option and acquired 75,000 shares of the company. On September 19, 1997, Yorkton Securities Ltd. exercised the remainder of their option and acquired an additional 75,000 shares of the company.

14. Significant Events

The Corporation has entered into a Directors, Management and Key Employees Stock Option Agreement. Under this agreement the officers and directors have been granted options to purchase 682,500 shares as follows:

Date Granted		Option Price	Shares Under Option
October 31, 1996	$	0.72	400,000
May 29, 1997		1.27	282,500
			682,500

The options will expire five years from the date of granting of the options.

15. Related Party Transactions

During the year, consulting fees of $44,940 were paid to the following private companies; 496001 Alberta Ltd., 714081 Alberta Ltd., 692857 Alberta Ltd., King Kat Contracting Ltd., and Makow Properties Corp. Ltd. These companies are related to Hyduke Capital Resources Ltd. through common directors.

During the year the company entered into related party transactions with a related company to acquire operating space (see note 6 & 7).

16. Earnings Per Common Share or Equivalent

	1998	1997
Basic earnings per share	$ **0.2680**	$ 0.1546
Fully diluted earnings per share	$ **0.2450**	$ 0.1256

The calculation of basic earnings per share is based on the weighted average number of common shares outstanding during the year.

17. Lease Commitments

The future minimum principal lease payments for occupancy costs for the next five years are as follows:

1998	**$ 348,720**
1999	$ 331,170
2000	$ 303,600
2001	$ 233,300
2002	$ 216,000

18. Contingent Liability

The company has outstanding documentary letters of credit with the Hongkong Bank of Canada in the amount of $215,630 as at April 30, 1998.

19. Segmented Information

Operating segments are as follows:

	Oil and Gas Services	Crane	Other	Totals
Revenue from external customers	$ 23,216,412	$ 7,076,988	$ –	$ 30,293,400
Segment profit before taxes	$ 2,390,405	$ 786,185	$ (147,134)	$ 3,029,456
Segment profit after taxes	$ 1,656,680	$ 490,326	$ (147,134)	$ 1,999,872
Segment assets	$ 8,076,679	$ 3,906,835	$ (444,166)	$ 11,539,348

20. Income Taxes

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the income taxes actually provided in the account:

	1998		1997	
	Amount	**%**	Amount	%
Income before income taxes	$ **3,029,456**	**100.0**	$ 1,220,494	100.0
Statutory income tax	**1,351,138**	**44.6**	544,340	44.6
Manufacturing and processing deduction	**(242,358)**	**(8.0)**	(97,640)	(8.0)
Other	**(79,196)**	**(2.7)**	(66,700)	(5.5)
Income tax expense	$ **1,029,584**	**33.9**	$ 380,000	31.1

Income tax expense is comprised of:		
Current	$ 886,719	$ 342,050
Deferred	142,865	37,950
	$ 1,029,584	$ 380,000

Income tax liability is comprised of:		
Current	$ 933,732	$ 342,050
Deferred	142,865	37,950
	$ 1,076,597	$ 380,000

21. Financial Instruments

Financial instruments consist of recorded amounts of accounts receivable and the mortgage receivable, which will result in future cash receipts, as well as bank advances, accounts payable and accruals, income taxes payable and long-term debt which will result in future cash outlays.

Financial instruments also include stock options which are in existence but have not been exercised.

a) **Interest Rate Risk**
The company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

b) **Currency Risk**
Currency risk is the risk to the companies earnings that arises from fluctuations or foreign exchange rates and the degree of volatility of these rates. The company does not use derivative instruments to reduce its exposure to foreign currency risk.

c) **Credit Risk**
Credit risk arises from the potential that a counterparty will fail to perform its obligations. The company is exposed to credit risk from customers. However, the company has a significant number of customers which minimizes concentration of credit risk.

d) **Fair Value**
The carrying values of the financial instruments noted above approximate their fair values.

Board of Directors

John Babic
Chairman
and Chief Executive Officer
Hyduke Capital Resources Ltd.

Boris Makowecki
President
Hyduke Capital Resources Ltd.

Peter Lylick
President
Superior Rentals Ltd.

Adrian Makowecki
President
A & J Bulk Sales Ltd.
and 496001 Alberta Ltd.

Kevin Whitworth
Operations Manager
B.W. Rig Repair & Supply Ltd.

Officers

John Babic
Chairman
and Chief Executive Officer

Boris Makowecki
President

Bob Ardiel
Chief Financial Officer

Banker

The Hongkong Bank of Canada
Edmonton, Alberta

Auditors

Watson, Aberant Arnold
Chartered Accountants
Edmonton, Alberta

Legal Counsel

Field Atkinson Perraton
Barristers & Solicitors
Edmonton, Alberta
Calgary, Alberta

Transfer Agent & Registrar

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Calgary, Alberta T2P 3S8
1.888.267.6555
Facsimile: 403.267.6879

Stock Exchange Listing

Hyduke Capital Resources Ltd. is traded on The Alberta Stock Exchange under the trading symbol HYD. Fiscal year end is April 30. First, second and third quarters are July 31, October 31, and January 31 respectively.

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Hyduke Capital Resources Ltd.

Annual General Meeting

Hyduke's Annual General and Special Meeting of Shareholders will be held at 3:00 p.m. on Thursday, October 22, 1998, at the Calgary Petroleum Club, 319 - 5 Avenue S.W., Calgary, Alberta.

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